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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

## 1950 OUTLOOK STILL GOOD

**A**LTHOUGH general business is still moving at a near-record clip, there is considerable uneasiness over its future. There is nothing resembling panic in this uneasiness, nor should there be - but most business men realize that they, too, travel what Dr. Nourse calls a "slippery road."

After nearly five years of superlative postwar prosperity, American business is still haunted by three dreadful specters: Socialism, war and depression. Never before has this triumvirate hovered above the country for so long. Never before has there been so much speculative opinion as to the inevitability or the proximity of each.

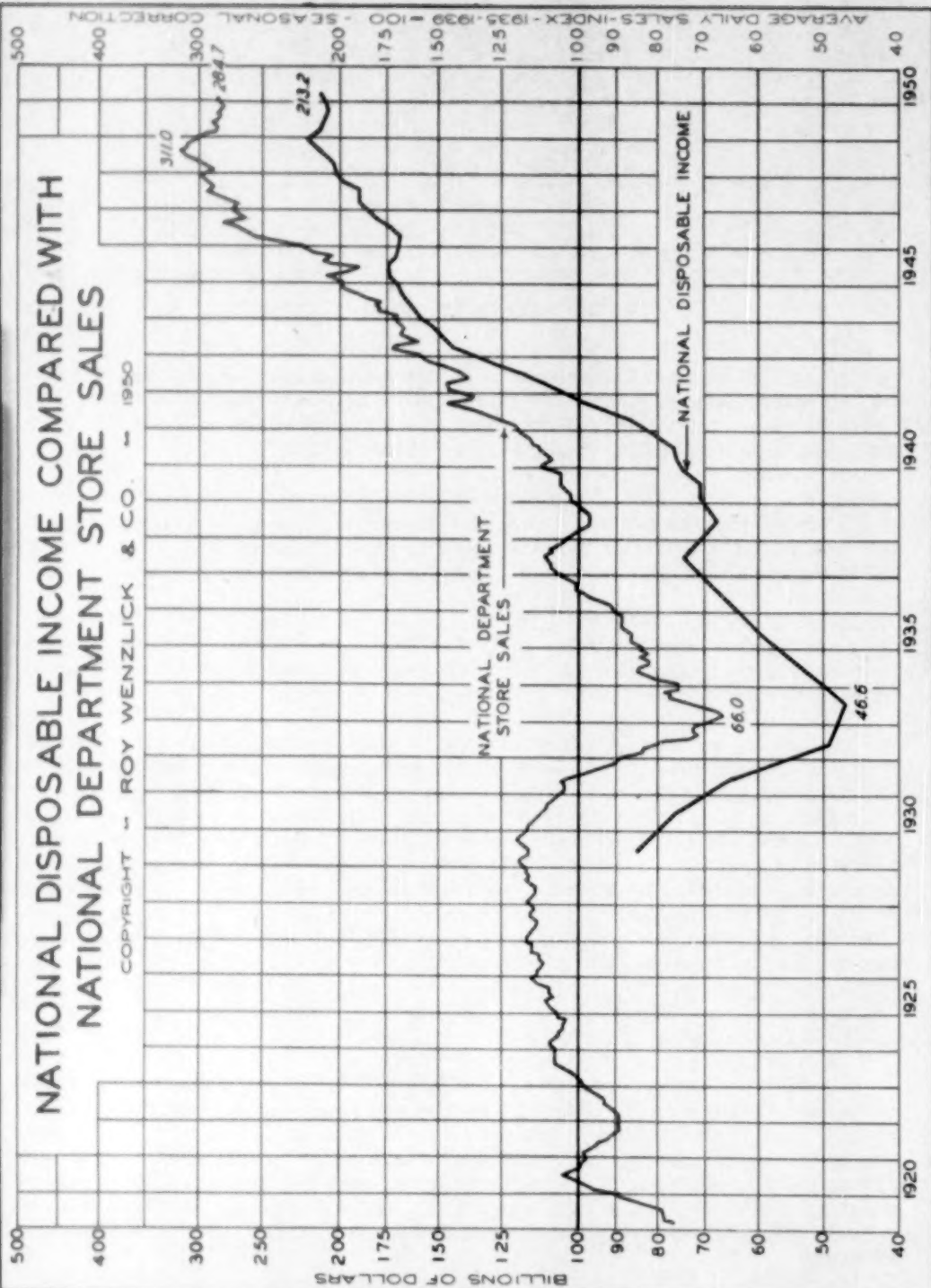
American business has more to be thankful for today than at almost any other time in its history. But it is also more harassed. Today its problems are greater. Some of these problems it will eventually solve; others, it is at the mercy of.

The pension problem has been thrust upon business by opportunistic labor groups. It has been handled badly. In some cases management supinely yielded up more than labor expected. In other cases management flaunted its fat pensions to executives while showing a tight fist to its workers. Some pensions have been launched without knowledge of their actuarial soundness. Others have been made non-contributory. The non-contributory pension plan is fundamentally unsound. It cannot be defended on any moral or economic basis. "Expediency" has been used as its excuse but "expediency" is a shaky base on which to rest any such long-term plan or obligation. The unworkable philosophy of "something for nothing" has received unexpected impetus from the manner in which business has approached the pension problem. But the problem will eventually be solved - soundly and not on the basis of expediency. In the meantime it has an impressive portion of our business population up in the air.

The deep and solemn warnings against deficit spending that come from such experts as Messrs. Hoover, Baruch, Eccles and Nourse also send shivers up the backs of most business men. A few have been lulled by Mr. Truman's little homilies on matters economic. Still others have succumbed to Mr. Keyserling's renditions from Lord Keynes. But most business men have a hard-won and healthy respect for red ink - especially when it appears in such large portions, and especially when there is every indication that it will continue to flow in even greater amounts.

# NATIONAL DISPOSABLE INCOME COMPARED WITH NATIONAL DEPARTMENT STORE SALES

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The results of the first part of the government's deficit are shown in our chart "Money in use per capita" on page 221. During 1947, 1948 and 1949 money in use per capita showed a marked decline from its 1946 peak. In the early part of 1950, however, it has climbed rather steeply and before the year is out will no doubt rise still higher. The fact that "money in use" has increased at a faster rate than has the supply of goods and services is the chief reason for our inflation. In the year 1900 the dollar was worth \$1.80 (1935-1939 = 100¢). In 1950 it is worth \$.60. If its value continues to decline during the next fifty years at this same rate, the dollar will be worth 20¢ in the year 2000 A. D. So when Mr. Truman foresees an average income of \$12,000 per year by the turn of the century, he isn't being particularly optimistic. He's only estimating how much the average family will need if the government continues to run a deficit.

No one can keep track or make sense of the various official announcements regarding the probabilities of war with Russia or our prospects of winning it, if and when it comes. One day the country is told that an atomic or hydrogen blitz could wipe it out in a matter of seconds and that Russia is ahead of us in certain vital steps of armament research and production. Another expert states that we could beat the Russians hands down and intimates that we'd scarcely draw a deep breath while doing it. Between these two extremes come all manner and variations of contradictory remarks.

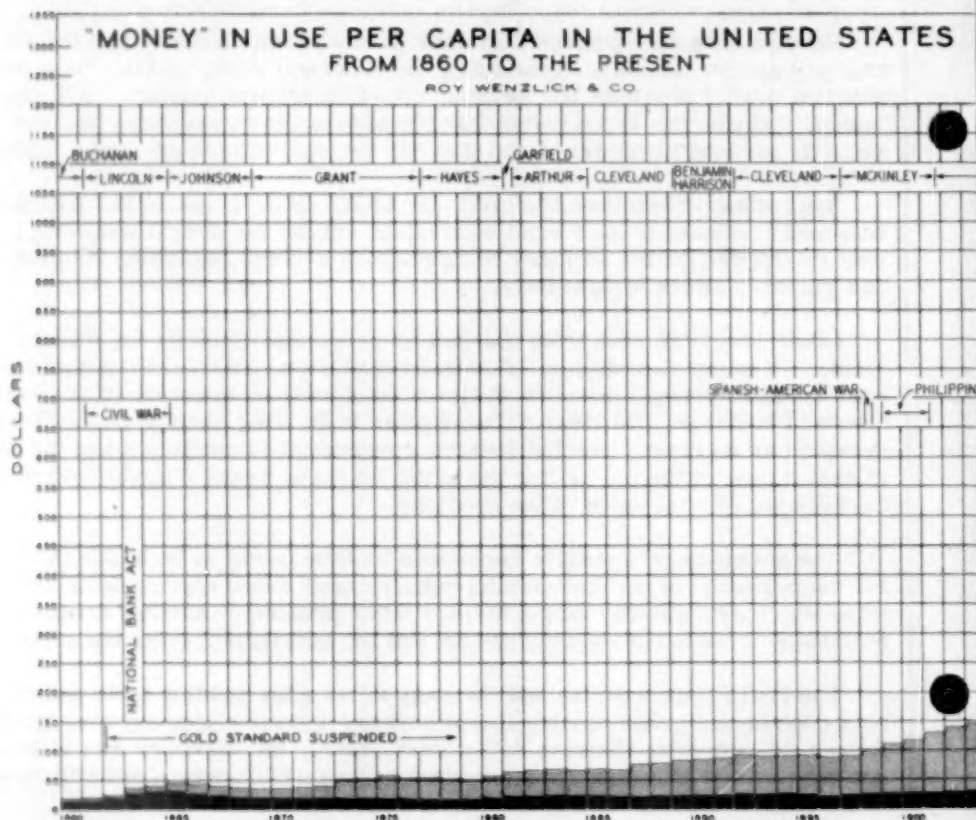
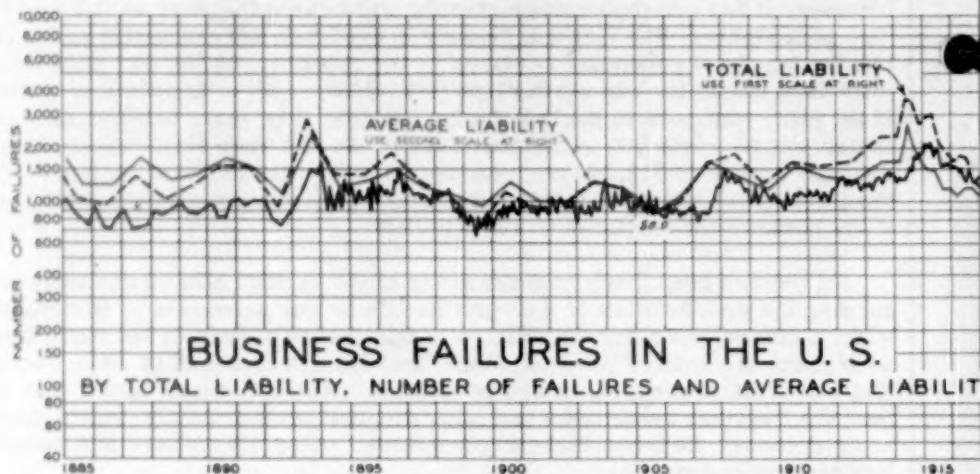
Coupled with our success - or lack of it - in the cold war are the Republican charges against the State Department, the Amerasia case, and our "now you see it, now you don't" program for helping anti-Communist nations. All of this confusion, and charges and countercharges create the impression that our national security is being undermined and that our national affairs are being manipulated.

Regardless of whether the cold war heats up or stays in the freezer, it has been and continues to be a most convenient excuse for deficit financing. Therein may lie the reason for so many contradictory reports regarding its past, present and probable future temperature.

Other problems rise from planned or proposed action by the Federal government. Attempts at additional Federal regulation, interference and competition have recently brought concern at times bordering on consternation to many segments of business. Representative Celler is fighting hard to make "bigness" be accepted as a crime. For the Federal government to actively adopt his attitude is at best a case of the pot calling the kettle black; at worst it could lead to a serious curtailment of vital parts of the economy.

The government's passive resistance to John Lewis as he builds the framework for socialization of the coal-mining industry must cause apprehension among industries who may some day face a similar labor problem. Another hobgoblin was the President's matter-of-fact suggestion that the government enter the steel business.

The real estate industry and its many allies after fighting tooth and nail against rent control and public housing almost suffered collective apoplexy over the Maybank-Spence Co-operative Housing Bill. Fortunately, the measure was killed. It will doubtlessly be resurrected at subsequent sessions of Congress and will require still more dogged fighting before (or if) it is finally laid to rest.







Recent developments within the field of taxation have brought reactions from business that run the gamut from frustration to rage. We are referring to Congress' vacillation over the reduction of excise taxes and the suggestions of higher levies against corporate profits. There is, however, one glimmer of light that has poked its way through the tax cloud. The Joint Committee on Taxation is considering a favorable revision of the capital gains tax. The contemplated change would reduce the critical holding period from six months to three months and cut the rate from 25% to 16-1/2%. If the measure passes it will doubtlessly speed up trading in the stock market and along other avenues of investment. However, not much hope is held for the bill's adoption.

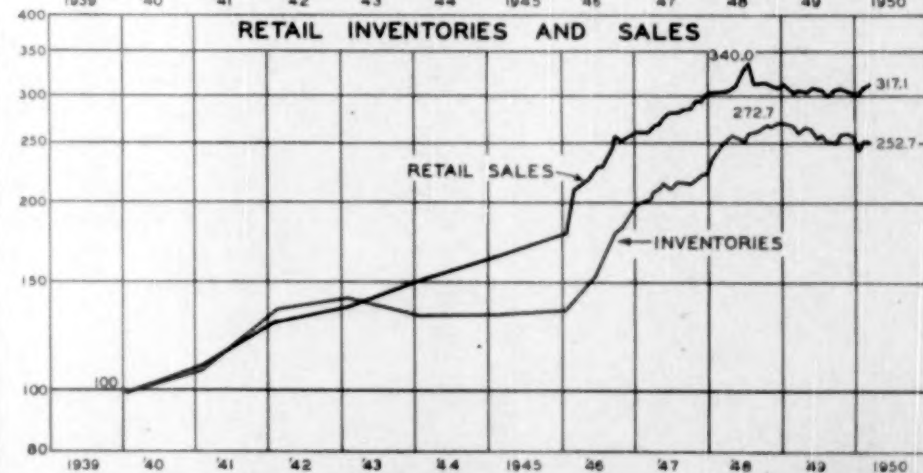
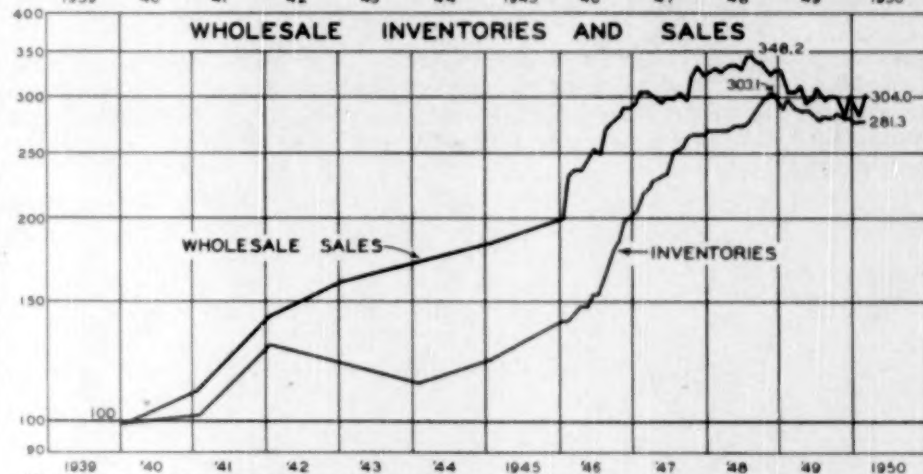
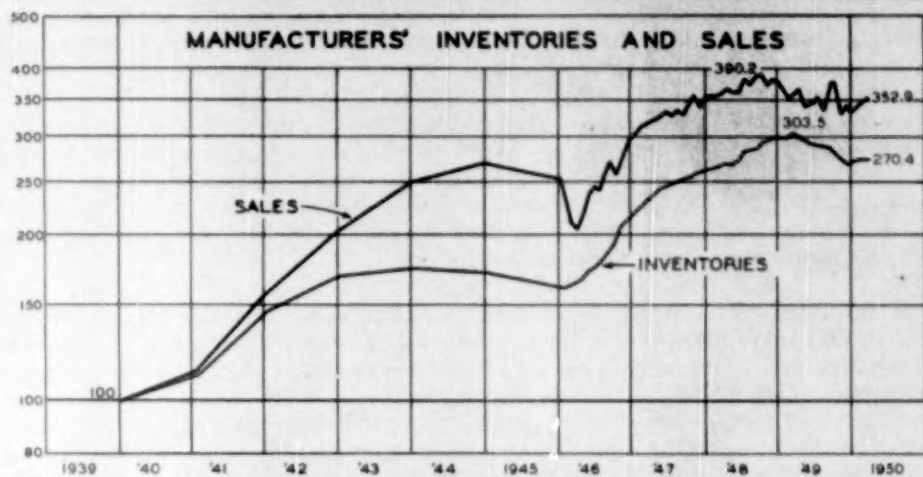
So far we have been discussing problems that have already appeared. To these must be added the apprehension rising from problems yet to be faced. The rulings handed down by the ICC and FTC are, to say the least, unpredictable. Most business men realize that regardless of their actions their motives are usually held in suspicion. One explanation of the quick settlement of the General Motors dispute holds that the company was afraid it would be accused of monopolistic practices if it cut prices; therefore, it raised wages. We do not know whether or not this is true - but it is plausible.

The threat of socialized medicine and Federal aid to education, the various interpretations that may be put upon the new minimum wage law and the extent to which Point Four and RFC loans to small business will be developed must all be punctuated with large question marks. We feel that government loans to small business are extremely unwise at this time, and believe that Jesse Jones' suggestion that the RFC be given a decent burial is an excellent one.

Since 1943, the most recent low point of our business population, the number of firms doing business has shown a net increase of over 850,000. This means that the net gain in our business population has averaged nearly 12,000 per month during the last 6 years. The gross figures on the number of new businesses formed since 1943 are even more impressive. Nearly 2-1/2 million new firms began operation during the period from January 1, 1944, through 1949. Although the number of business failures has been rising steeply (see chart on page 220) the number is still below the prewar average and the rate of failures is still very low.

We believe that government loans or guarantees would be relatively ineffective in forestalling business failures or in launching new ones on a sound basis. The Federal Reserve Banks were authorized to make loans to small business in 1934. During the 10-year period following the Federal Reserve Bank of New York carefully screened 5,000 inquiries and made 538 loans. Out of \$12,000,000 advanced, losses totaled nearly \$1,000,000. These losses took place in spite of the fact that the loans were rather carefully selected and the new firms operating in an expanding market and rising price level. In commenting on this experience some years later, Robert V. Rosa of the New York Federal Reserve Bank pointed out that "it is not credit but management which is the major problem for small business." In our opinion the government could foster greater business expansion by creating a more favorable climate for its operation. Expansion should be encouraged by incentive rather than by subsidy.

In addition to the actual and potential problems engendered by government's action



and attitude, business must continue to meet its day-to-day "business" problems. Foremost are those dealing with the size of consumer income - how much of it will be spent, and how.

The chart on page 223 shows the comparison between the three major classes of sales and inventories. Inventories have been in a slowly declining trend for the past year or so, indicating a somewhat more cautious attitude on the part of business. However, sales have held steady for over a year at near-record levels. Not shown is the enormous inventory of consumer durable goods that has been built up in the hands of the consumer during the last five years.

The fact that record numbers of homes, automobiles, refrigerators, stoves, radios, washing machines, etc., have been added to the nation's inventory in the past few years gives rise to serious speculation as to how much longer the pace can be maintained. The short-term outlook for most major lines is excellent. This year will probably set new records in at least two major fields (autos and homes), and sales of other consumer durables will also be unusually high. Prices for the most part will tend to be firm.

Everyone knows that business cannot continue to operate at its present level, but no one so far is willing to guess the approximate date of the next downturn. Neither are we. Generally speaking, this year looks good to us, and even if things slow down a bit by the fourth quarter, 1950 will be a year that most of us can look back on pleasantly.